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THE NEW EXPORT STRATEGY OF THE USSR

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SOVIET DUMPING AND RUBLE DEVALUATION: THE NEW EXPORT STRATEGY OF THE USSR

/Following is the translation of an article by Paul Zieber in Die Zeit (Time), Hamburg, 10 February 1961, page 17./

Soviet price policies cause Western industrial countries a great deal of trouble. With its centrally directed planned economy and its national foreign trade policy, the USSR has the possibility of being able to carry on trade under completely political aspects without any regard for economic considerations. The devaluation of the ruble which took place on 1 January will further strengthen the export strategy of the Soviet Union.

As long as Soviet foreign trade was relatively small, even Soviet dumping on the world market could not seriously disturb the world price structure. For instance, during the height of the world economic crisis in 1930, Soviet exports — at that time exclusively to non-Communist countries -- reached only one billion rubles, but in 1956 they reached 3.5 billion rubles, and in 1959 5.267 billion rubles. At the present time, the USSR has become a competitior on the world market that can not be ignored.

The traditional Russian export products are oil, grain, wood, coal, and iron ore. During the last few years, the USSR has also considerably increased its export of machinery. It is typical of all these Russian export products that they are offered on the world market at prices which usually are considerably lower than Soviet production costs and also are lower than world market prices. They are sold in the West at dumping prices, while the prices for exports to the Communist Bloc are often much higher than the export prices to the non-Communist world.

In 1959 (the figures for 1960 are not yet available,) seven million tons of grain — including six million tons of wheat — were exported by the USSR. At that time a ton of wheat was worth about seventy-five dollars on the world market. According to the exchange value of the ruble, this came to 300 rubles per ton. /In each case, the ton is the metric ton of 1,000 kg./ As a matter of fact, however, the Soviets delivered the wheat at 250 rubles per ton. Only the Communist Bloc — where over half of the wheat exports went — paid world market prices, and in some cases even had to pay more.

The Soviet cost of producing wheat was at a much higher rate, however, than the world market price. In 1959, the Soviet State bought

wheat from the kolkhozes at prices which varied according to agricultural areas from 700 to 1,000 rubles per ton. In 1959, the State put up about 3.5 billion rubles in order to sell its wheat on the world market.

The Russians also deliver wood products at very favorable prices, and this creates serious competition for Western exporters. In 1959, they offered round timber to the Western countries at forty-five to sixty rubles per cubic meter. In the Communist Bloc they delivered it at seventy to seventy-three rubles per cubic meter.

A cubic meter of wood cost the Soviet State ninety-six rubles for the cutting and piling, and to this must be added transportation costs. If the Soviets had exported rough wood at true prime costs even without a profit, they would have had to ask from 140 to 150 rubles per cubic meter. In 1959, 3.5 million cubic meters of round timber were exported. If one assumes that for every cubic meter, seventy-five rubles were paid out, then the Soviet State subsidized this export product in just this one year alone to the sume of 262.5 million rubles.

It is only with Soviet oil exports that one may speak of a not complete business loss, since oil production costs in the USSR are very low, and since the Communist Bloc countries pay well for the oil which they import.

In 1959, the Russians exported oil to the Communist Bloc at a price of eighty-seven rubles per ton, while on the average they delivered it to the West at fifty rubles per ton. On the average the Soviet production costs amounted to fifty rubles. Even without adding oil transportation costs to the pure production costs, the Soviet production cost for oil was slightly higher than the world market price, which at that time was forty-seven rubles per ton. Since, however, about a third of the oil exports went to the Communist Bloc, the Russians could balance out their loss in this sector of the economy.

It is quite a different story, however, with coal and iron ore. On the average the Russians sold coal at sixty rubles per ton, and in 1959 they exported 11.1 million tons. However, their production costs, not including transportation costs, came to eighty-eight rubles per ton. In order to conform to costs, they would have had to offer coal for export at a price of not under 102 rubles to meet the world market price in rubles of 103. But in this way Soviet coal would not have been able to compete on the world market.

For the most part the USSR exports iron ore to the Communist Bloc. In 1959 the export total amounted to over thirteen million tons. But even here there was a large difference between production costs and export prices. On the average a ton of iron ore was exported at the price of forty-seven rubles. But the pure mining costs alone amounted to over fifty rubles. If one adds the transportation costs to this, the Russians would have had to offer iron ore for export at a price of not under 100 rubles per ton in order to conform to costs.

No country with a free economy would be in a position to subsidize its export economy to such a high degree. The Soviet State is sovereign,

however, in its use of finances. In a practical way it does not have to account to anyone for its state expenditures. When in spite of this, the Soviet Finance Minister appears annually before the Supreme Soviet to report on the Soviet Budget, his summary is made out in such an incomplete way that no Soviet citizen can establish how many billions of rubles are used to subsidize Soviet dumping. Year after year a growing entry of unitemized expenses appears among the state expenditures. In 1959, this sum amounted to about fifty billion rubles. If one wants to find the means for Soviet subsidization of dumping, they are to be found in this budget entry.

Formerly the USSR paid out billions of rubles every year in order to sell Soviet goods on the world market at dumping prices. In the long run this business became too expensive for the Soviets. Now, with their devaluation of the ruble, they have begun an attempt to get out of this subsidizing crisis. As the Soviet Finance Minister, Gorbuso, wrote in Pravda on the day of the fixing of the new ruble exchange rate, the ruble devaluation was above all an attempt to balance the big difference between internal Soviet production costs and Soviet export prices.

Effective 1 January 1961, the total price and income structure in the USSR was reduced by a rate of ten to one. That means that in the future even without technical improvements all prime costs of the export industry will be reduced to one tenth. At the same time the foreign value of the ruble was set in a new way. Without this change-over in the rate of exchange and corresponding to internal gold valuation, the new ruble would have had to represent ten times the amount of gold -- hence 2.22 instead of the former 0.222168 grams of fine gold. As a matter of fact, however, the gold content of the new ruble was set at only 0.987412 grams. This means a devaluation of about 125 per cent.

This ruble devaluation considerably strengthens the export strength of the Soviet economy. If formerly the Soviet State had to buy wheat on the average of from 700 to 1,000 rubles per ton, it now costs the State only seventy to one hundred rubles. While formerly the world market price for wheat, corresponding to the old rate of ruble exchange, came to 300 rubles, and thus the difference between the world market price and the inner Soviet purchase price averaged 500 rubles, now with the new currency the world market price for wheat will amount to sixty-eight rubles. Thus through the devaluation of the ruble the difference has been reduced to a minimum.

In the case of coal and oil, it is even easier to see the Soviet intention with respect to their policies of money reform and their change-over in the rate of exchange. Formerly, if they wanted to sell it without loss, they had to pay only about 120 rubles for a ton of coal. As a matter of fact however, the Russians sold their coal at a price which was fifty percent below the cost price. In the future through the inner Soviet price reduction resulting from the money reform, a ton of coal will cost only twelve rubles, even if there is no increase in

production. However, the world market price figured in new rubles will come to 23.31 -- as a result, that will be 100 per cent above the real prime costs. Whereas formerly it amounted to 103 old rubles and threfore came to considerably under the real prime costs.

Formerly the production costs for oil averaged fifty old rubles -- while the world market price came to forty-eight old rubles. Transportation costs of between fourteen and thirty-five rubles for every 1500 cubic meters had to be added to the pure production costs. If one takes as a basis the average production costs, a ton of oil costs about eighty rubles f.o.b. the Black Sea Ports. In the futre a ton of oil will cost only eight rubles, while the world market price will come to 10.52 in new rubles.

In this way the Russian want to get rid of their subsidizing problems with the stroke of the pen. Whether their calculations will succeed or not, only the future will show. It would be wise, however, for the export economy of the Western countries to follow this Soviet export manipulation with the greatest attention. Formerly it was relatively easy to point out Soviet dumping. In the future it will be considerably more difficult to do so.

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